UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended December 31, 2003, or

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from NA to NA.

Commission File Number 0-16106

APA OPTICS, INC.
(Exact name of Registrant as specified in its charter)

MINNESOTA	41-1347235
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

2950 N.E. 84TH LANE, BLAINE, MINNESOTA 55449
(Address of principal executive offices and zip code)

(763) 784-4995
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to the filing requirement for the past 90 days.

Yes X No ___

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes ___ No X

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

Class:	Outstanding at December 31, 2003
Common stock, par value $.01	11,872,331

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

APA OPTICS, INC.
CONSOLIDATED CONDENSED BALANCE SHEETS
(UNAUDITED)

<S>	December 31, 2003 <C>	March 31, 2003 <C>
ASSETS		
Current assets:		
Cash and cash equivalents	$ 15,040,465	$ 22,235,686
Accounts receivable, net of allowance for uncollectible accounts of $24,838 at December 31, 2003 and $20,644 at March 31, 2003	1,407,578	468,576
Inventories	2,403,681	1,398,203
Prepaid expenses	182,897	134,045
Bond reserve funds	84,282	125,830
Total current assets	19,118,903	24,362,340
Property, plant and equipment, net	4,402,452	3,989,344
Other assets:		

Bond reserve funds	335,618	340,629
Bond placement costs, net of accumulated amortization	1,771	20,013
Patents, net of accumulated amortization	92,738	85,362
Goodwill	2,778,296	2,500,296
Other	569,386	586,542
	3,777,809	3,532,842
Total assets	$ 27,299,164	$ 31,884,526
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	$ 1,545,149	$ 1,846,922
Accounts payable	910,483	454,804
Accrued expenses	529,417	337,097
Total current liabilities	2,985,049	2,638,823
Long-term debt	276,831	326,760
Shareholders' equity:		
Common Stock	118,723	118,723
Additional paid-in capital	51,975,345	52,001,681
Accumulated deficit	(28,056,784)	(23,201,461)
Total shareholders' equity	24,037,284	28,918,943
Total liabilities and shareholders' equity	$ 27,299,164	$ 31,884,526

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SEE ACCOMPANYING NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

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APA OPTICS, INC.
CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2003	2002	2003	2002
<S>	<C>	<C>	<C>	<C>
Revenues	$ 3,301,955	$ 40,674	$ 8,426,533	$ 152,025
Costs and expenses:				
Cost of sales	3,314,468	554,053	8,521,606	2,030,730
Research and development	248,128	360,178	655,302	1,050,025
Selling, general and administrative	1,380,005	296,638	4,104,496	1,014,573
	4,942,601	1,210,869	13,281,404	4,095,328
Loss from operations	(1,640,646)	(1,170,195)	(4,854,871)	(3,943,303)
Other income	38,569	44,906	98,677	300,795
Other expense	(39,196)	(25,705)	(96,966)	(79,716)
	(627)	19,201	1,711	221,079
Loss before income taxes	(1,641,273)	(1,150,994)	(4,853,160)	(3,722,224)
Income taxes	1,163	500	2,163	1,000
Net loss	$(1,642,436)	$(1,151,494)	$(4,855,323)	$(3,723,224)
Net loss per share:				
Basic and diluted	($0.14)	($0.10)	($0.41)	($0.31)
Weighted average shares outstanding:				
Basic and diluted	11,872,331	11,872,331	11,872,331	11,874,371

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SEE ACCOMPANYING NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

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APA OPTICS, INC.
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
(Unaudited)

	Nine Months Ended December 31, 2003	Nine Months Ended December 31, 2002
<S>	<C>	<C>
OPERATING ACTIVITIES		
Net loss	$(4,855,323)	$(3,723,224)
Adjustments to reconcile net loss to net cash used in operating activities, net of acquisition:		
Depreciation and amortization	672,528	512,638
Write-off of patents	-	108,660
Stock based compensation expense	(26,336)	(44,729)
Changes in operating assets and liabilities:		
Accounts receivable	(345,002)	(12,889)
Inventories	(367,478)	(66,252)
Prepaid expenses and other	(124,441)	(16,445)
Accounts payable and accrued expenses	647,999	(55,966)
Net cash used in operating activities	(4,398,053)	(3,298,207)
INVESTING ACTIVITIES		
Purchases of property and equipment, net	(542,891)	(181,793)
Cash paid for business acquisition	(1,960,000)	-
Investment in patents	(7,376)	(14,176)
Net cash used in investing activities	(2,510,267)	(195,969)
FINANCING ACTIVITIES		
Repayment of long-term debt	(351,702)	(437,032)
Repurchase of common stock	-	(5,991)
Bond reserve funds	64,801	52,291
Net cash used in financing activities	(286,901)	(390,732)
Decrease in cash and cash equivalents	(7,195,221)	(3,884,908)
Cash and cash equivalents at beginning of period	22,235,686	31,606,403
Cash and cash equivalents at end of period	$15,040,465	$27,721,495
Noncash investing and financing activities		
Contributed land	-	$ 67,760
Net assets held for sale	$ 57,564	

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SEE ACCOMPANYING NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

NOTE 1. BASIS OF PRESENTATION

The accompanying condensed financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. For further information, refer to the financial statements and footnotes thereto included in the Company's annual report on Form 10-K for the year ended March 31, 2003.

In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Certain reclassifications of previously reported amounts have been made to conform that presentation to the current period presentation.

NOTE 2. NET LOSS PER SHARE

The following table sets forth the computation of basic and diluted net loss per share:

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	Three Months Ended December 31,		Nine Months Ended December 31,	
	2003	2002	2003	2002
<S>	<C>	<C>	<C>	<C>
Numerator for basic and diluted net loss	$(1,642,436)	$(1,151,494)	$(4,855,323)	$(3,723,224)
Denominator for basic and diluted net loss per share- weighted-average shares outstanding	11,872,331	11,872,331	11,872,331	11,874,371
Basic and diluted net loss per share	($0.14)	($0.10)	($0.41)	($0.31)

</TABLE>

Common stock options and warrants to purchase 1,008,697 and 548,697 shares of common stock with a weighted average exercise price of $6.67 and $9.51 were outstanding at December 31, 2003 and 2002, respectively, but were excluded from calculating the three months diluted net loss per share because they were antidilutive.

NOTE 3. LAND

The Company acquired land in Aberdeen, SD as part of a financing package provided by the Aberdeen Development Corporation to locate a manufacturing facility in that city. Ownership of the land was contingent upon the Company remaining in the facility through June 23, 2002. After satisfying the contingency, the Company added $67,760 (the assessed value of the land for tax purposes) to its balance sheet and increased additional-paid-in capital by a like amount.

NOTE 4. STOCK OPTION GRANTS

On August 22, 2002 the Company granted an option to purchase 2,500 shares of common stock to every current employee with the exception of Anil Jain, the Chief Executive Officer, and Ken Olsen, the Chief Operating Officer. A total of 122,500 options were granted, all with an exercise price equal to the fair market value of the stock on the day of grant. The options become exercisable for 60% of the shares when the Company achieves specified financial objectives and exercisable as to the remaining 40% when the Company achieves specified

operational objectives set forth in the Short-Term Incentive Plan. Accordingly, these options are treated as variable awards, and the Company reflects changes in their value in the general and administrative expense line until the options are exercised or expire. As of December 31, 2003, 14,940 shares have vested and related expense has been recorded within SG&A. The Company recorded a gain of $10,458 for the three months ended December 31, 2003 and expense of $3,436 for the nine months ended December 31, 2003 related to these options.

NOTE 5. ACQUISITION

The Company acquired the assets of Americable, Inc. on June 27, 2003. The purchase price and assets acquired are as follows:

Accounts receivable	$ 594,000
Inventory	638,000
Property, plant and equipment	450,000
Assets purchased	1,682,000
Goodwill	278,000
Purchase price	$1,960,000

NOTE 6. SEGMENT REPORTING

The March 2003 and June 2003 acquisitions of Computer System Products, Inc. and Americable, Inc,, prompted the Company's management to adjust how it evaluates its business. As a result the Company established segments under FASB 131"Disclosures about Segments of an Enterprise and Related Information." This evaluation is based on the way segments are organized within the Company for making operating decisions and assessing performance. The Company has identified two reportable segments based on its internal organizational structure, management of operations, and performance evaluation. These segments are APA Optics (APA) and APA Cables and Networks (APACN). APA's revenue is generated in the design, manufacture and marketing of ultraviolet (UV) detection and measurement devices and optical components. APACN's revenue is derived primarily from standard and custom fiber optic cable assemblies, copper cable assemblies, value added fiber optics frames, panels and modules. Expenses are allocated between the companies based on detailed information contained in invoices. In addition, corporate overhead costs for management's time and other expenses absorbed at APA are allocated to APACN on an ongoing basis. Such allocated expenses were $61,251 and $96,851 for the three and nine months ended December 31, 2003. Segment detail is summarized as follows (unaudited, in thousands):

<TABLE>
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	APA Optics	APACN	Eliminations	Consolidated
<S>	<C>	<C>	<C>	<C>
THREE MONTHS ENDED DECEMBER 31, 2003				
External sales	$ 99	$3,239	$ (36)	$ 3,302
Cost of sales	790	2,561	(36)	3,315
Operating loss	(1,307)	(334)	-	(1,641)
Depreciation and amortization	188	54	-	242
Capital expenditures, net	373	15	-	388
Assets	27,029	7,456	(7,186)	27,299
THREE MONTHS ENDED DECEMBER 31, 2002				
External sales	$ 41	-	-	$ 41
Cost of sales	554	-	-	554
Operating loss	(1,170)	-	-	(1,170)
Depreciation and amortization	170	-	-	170
Capital expenditures	116	-	-	116
Assets	32,217	-	-	32,217
NINE MONTHS ENDED DECEMBER 31, 2003				
External sales	$ 222	$8,249	$ (44)	$ 8,427
Cost of sales	2,150	6,416	(44)	8,522
Operating loss	(4,053)	(802)	-	(4,855)
Depreciation and amortization	557	116	-	673
Capital expenditures, net	473	127	-	600
Assets	27,029	7,456	(7,186)	27,299
NINE MONTHS ENDED DECEMBER 31, 2002				
External sales	$ 152	$ -	$ -	$ 152
Cost of sales	2,031	-	-	2,031
Operating loss	(3,943)	-	-	(3,943)
Depreciation and amortization	513	-	-	513
Capital expenditures	182	-	-	182
Assets	32,217	-	-	32,217

</TABLE>

Note 7. Stock Repurchase Plan

On October 1, 2002, the Board of Directors extended its plan authorizing the repurchase of up to the greater of $2,000,000 or 500,000 shares of the Company's common stock. For the nine months ended December 31, 2002, the Company repurchased a total of 3,550 shares for $5,991 at an average price of $1.69 per share. No shares were purchased during the nine months ended December 31, 2003.

NOTE 8. WRITE-OFF OF PATENT COSTS

As a result of the slow down in the sale of fiber optic components and uncertainty regarding if and when demand for such components will recover, the Company expensed the unamortized balance of patents related to its dense wavelength multiplexer / demultiplexers or "DWDM" technology. As a result, expenses related to patents increased $108,660 for the quarter and nine months ended December 31, 2002. There was no comparable expense during the quarter and nine months ended December 31, 2003.

NOTE 9. DISCONTINUED OPERATIONS

In January, 2004 the Company announced the discontinuance of optics manufacturing at its Blaine facility, affecting its APA Optics segment. The closure was the result of aggressive off-shore pricing and continued lower demand for this product line. This will result in a charge of up to $200,000 to be taken in the 4th quarter ending March 31, 2004. The Company has identified certain assets related to this activity and effective December 31, 2003, has listed their book value as of that date as net assets held for sale. The book value amount, which has been determined to be approximately $58,000, was reclassified and removed from Property, Plant and Equipment and is included within Other Assets on the Balance Sheet.

NOTE 10. STOCK BASED COMPENSATION

In accordance with Accounting Principles Board (APB) Opinion No. 25, the Company uses the intrinsic value-based method for measuring stock-based compensation cost which measures compensation cost as the excess, if any, of the quoted market price of the Company's common stock at the grant date over the amount the employee must pay for the stock. The Company's policy is to grant stock options at fair value at the date of grant. The following table illustrates the effect on net loss and net loss per share if the Company had applied the fair value recognition provisions of FASB Statement No. 123, "Accounting for Stock-Based Compensation", to stock-based employee compensation (in thousands, except per share data).

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	Thee Months Ended December 31,		Nine Months Ended December 31,	
	2003	2002	2003	2002
<S>	<C>	<C>	<C>	<C>
Net loss as reported	$(1,642,436)	$(1,151,494)	$(4,855,323)	$(3,723,224)
Less: Compensation expense determined under the fair value method, net of tax	50,318	32,180	150,952	96,540
Pro forma net loss	$(1,692,754)	$(1,183,674)	$(5,006,275)	$(3,819,764)
Net loss per share:				
Basic and diluted as reported	($0.14)	($0.10)	($0.41)	($0.31)
Basic and diluted pro forma	($0.14)	($0.10)	($0.42)	($0.32)

</TABLE>

NOTE 11. ADOPTION OF NEW ACCOUNTING PRONOUNCEMENTS

In June 2002, FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS No. 146 requires the recognition of a liability for a cost associated with an exit or disposal activity when the liability is incurred versus the date the Company commits to an exit plan. In addition, SFAS No. 146 states the liability should be initially measured at fair value. The requirements of SFAS No. 146 are effective for exit or disposal activities that are initiated after December 31, 2002. In accordance with SFAS No. 146, the Company expects to incur a charge of approximately $200,000 in the 4th quarter ending March 31, 2004 related to the closing of it Optics operations.

In November 2002, the FASB issued Interpretation 45 (FIN 45), "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." This statement clarifies the initial accounting and disclosure requirements of SFAS 5 for certain guarantees. The initial recognition and measurement provisions are effective for guarantees issued or modified after December 31, 2002 and the disclosure requirements are effective for financial statements of interim or annual periods ending after December 15, 2002. The Company believes the adoption of FIN 45 did not have a material effect on the Company's financial position or results of operations.

In January 2003, the FASB issued Interpretation No. 46 (FIN 46), "Consolidation of Variable Interest Entities" (VIE), which requires consolidation of variable interest entities by holders of variable interests that meet certain conditions. FIN 46 establishes accounting for variable interests in a VIE created after January 31, 2003. FIN 46 clarifies how an enterprise should determine if it should consolidate a VIE. The adoption of FIN 46 has not had a material affect on the Company's consolidated financial position or results of operations.

In May 2003, the FASB issued Statement 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity". This statement changes the classification of certain common financial instruments from either equity or mezzanine presentation to liabilities in the balance sheet and requires an issuer of those financial instruments to recognize changes in fair value or redemption amount, as applicable, in earnings. This statement is effective for financial instruments entered into or modified after May 31, 2003 and, with one exception, is effective for the quarter beginning July 1, 2003 for public companies. As the Company has not issued any financial instruments addressed by this new pronouncement, its adoption did not have a material effect on the Company's consolidated financial statements.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Statements in this Report about future sales prospects and other matters to occur in the future are forward looking statements and are subject to uncertainties due to many factors, many of which are beyond our control. These factors include, but are not limited to, the continued development of our products, acceptance of those products by potential customers, our ability to sell such products at a profitable price, and our ability to fund our operations. For further discussion regarding these factors, see "Factors That May Influence Future Results."

OVERVIEW
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We design, manufacture, source from third parties, and market a variety of fiber optic and copper components to the data communication and telecommunication industries. We are also active in the design, manufacture and marketing of ultraviolet (UV) detection and measurement devices, and in research and development in the area of Gallium Nitride (GaN) based transistors.

Our primary internally manufactured products include standard and custom fiber optic cable assemblies, copper cable assemblies, value added fiber optics frames, panels and modules. These products are manufactured by our wholly owned subsidiary APA Cables and Networks, Inc. (APACN), which acquired certain assets of Computer System Products, Inc. ("CSP") on March 14, 2003 and certain assets of Americable, Inc. ("Americable") on June 27, 2003. Several of the items discussed under "Results of Operations" show significant changes from the comparable periods in the preceding fiscal year as a result from the acquisitions of CSP and Americable.

In January 2004 APA terminated its optics manufacturing in Blaine, Minnesota as described in Note 9 to the financial statements. Additionally in January 2004 APA consolidated its fiber optics operations within Blaine. APA plans to continue to market and sell fiber optic products using mainly APACN's sales team and channels. We outsource from third parties passive optical splitters, arrayed waveguides (AWGs) and wavelength division multiplexers (WDMs) based on Thin Film Filter (TFF) technology, which we combine with our internally manufactured products to create value added components for our customers. The majority of our outsourced product providers are located offshore.

Most companies in the communications industry have been affected by the slowdown in telecommunications equipment spending. Decreased demand and competition have put downward pressure on margins. This downward pressure is likely to continue and we will need to reduce operating costs and improve efficiencies to remain competitive in the marketplace.

Our consumer GaN based product, the SunUV(TM) Personal UV Monitor (formerly SunWatch) is now ready for production. As of December 31, 2003, and currently, we are working with our manufacturing facility in China to address yield and production capacity issues. Whereas we shipped several hundred SunUV(TM) Personal UV Monitors to one customer in the 3rd quarter, our ability to ship large quantity orders is dependent upon our ability to solve production related issues.

We continue to work on our industrial GaN based product, the TrUVMeter(TM) to meet accuracy and reliability specifications for key markets in sterilization, curing and scientific measurement. As reported previously, our primary focus at present is to introduce the SunUV(TM) Personal UV Monitor to the market and, subsequently, to introduce the TrUVMeter(TM).

RESULTS OF OPERATIONS
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REVENUES

Revenues for the quarter ended December 31, 2003 were $3,301,955, reflecting over an eighty-fold increase from the comparable period in the preceding fiscal year. The increase is attributable to revenues generated by our wholly owned subsidiary, APACN, which produced $3,239,275 in revenues for the quarter. This compares to $3,497,188 in the prior quarter ended September 30,

2003. Sales at APACN were affected by seasonality and the number of holidays in the third quarter. Sales for the nine months ended December 31, 2003 were $8,426,533, reflecting a 54-fold increase from the comparable period in the preceding year. The increase is attributable to revenues generated by APACN, which recorded revenue of $8,248,831 for the nine month period ended December 31, 2003. There are no corresponding revenues from APACN in the comparable period in the preceding fiscal year. We expect that future sales of APACN products will continue to account for a substantial portion of our revenue. We anticipate that revenues in the fourth quarter ending March 31, 2004, as compared to the third quarter ended December 31, 2003, will remain constant at APA Optics and may grow slightly at APACN.

COST OF SALES

Cost of sales for the quarter ended December 31, 2003 was $3,314,468 and $8,521,606 for the nine months ended December 31, 2003, respectively. Cost of sales for the three and nine months ended December 31, 2002 was $554,053 and $2,030,730, respectively. The increases over the comparable periods in the preceding fiscal year are due primarily to the volume increase attributable to APACN. Gross margins for APACN for the current quarter were $678,369 or 21%, and $1,833,083, or 22%, for the nine months ended December 31, 2003. This compares to gross margins of $838,150 for APACN in the prior quarter ended September 30, 2003. Gross margins for the quarter ended December 31, 2003 at APACN were negatively affected by lower revenues as well as costs associated with expanding to APA's Aberdeen production facility. Cost of sales for the quarter ended December 31, 2003 at APA were negatively affected by the write off of approximately $165,000 of obsolete inventory mainly related to fiber optics products. We expect gross margins for APACN to improve as we gradually realize lower manufacturing costs associated with APA's Aberdeen facility.

RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses decreased by $112,050, to $248,128, for the quarter ended December 31, 2003 compared to the same period for the preceding fiscal year. This represents a decrease of 31% compared to the same period in the prior year. Research and development expenses decreased by $394,723, from $1,050,025 to $655,302, for the nine months ended December 31, 2003 compared to the same period in 2002. Decreases in both the three and nine month periods in 2003 versus 2002 are due primarily to decreased research activity related to our fiber optic products. The majority of the decreases are due to reduction in salaries and other related expenses. We expect research and development expenses to remain consistent with previous quarters for the balance of fiscal 2004.

SELLING, GENERAL AND ADMINISTRATIVE

Selling, general and administrative expenses increased $1,083,367 to $1,380,005 for the quarter ended December 31, 2003 versus $296,638 for the comparable period in the preceding fiscal year, reflecting an increase of 365%. The increase is due primarily to the addition of APACN, which had $1,012,066 in SG&A expenses for the quarter. This compares to $1,104,028 in the second quarter ended September 30, 2003, or a decrease of $91,962. The decrease form the prior quarter is due mainly to one time expenses APACN incurred in the second quarter associated with its consolidation of facilities, coupled with additional sales and marketing expenses in the third quarter attributable to compensation of additional outside manufacturer representatives and higher marketing costs. For the three months ended December 31, 2003, expenses at APA Optics increased $71,301 to $367,939 from $296,638, due primarily to higher depreciation and amortization expenses.

For the nine months ended December 31, 2003, SG&A increased $3,089,923, or 305%, to $4,104,496. The increase was primarily due to the acquired operations of APACN, which had $2,635,510 in expenses for the nine months ended December 31, 2003, approximately 67% of which is personnel related. For the nine months ended December 31, 2003, SG&A expenses at APA Optics increased $454,413 to $1,468,986 from $1,014,573, primarily due to higher depreciation and amortization along with higher personnel expenses. For the nine months ended December 31, 2003, approximately $230,000 of APA Optics SG&A expenses, primarily professional fees, have been related to non-recurring uncapitalized transaction costs for the acquisitions of CSP and Americable. We expect SG&A expenses to decrease next quarter as cost savings related to the consolidation of the operations of APA's fiber optic segment are achieved.

LOSS FROM OPERATIONS

The loss from operations was $1,640,646, an increase of $470,451, or 40% for the quarter ended December 31, 2003 over the comparable period in fiscal 2003. The increased loss in the quarter was the result of operating losses at APACN, which totaled $333,697 for the period. The loss from operations for the nine months ended December 31, 2003 was $4,854,871, an increase of $911,568, or 23%, from $3,943,303 in the comparable period in the preceding year. The increased loss is primarily the result of the operating losses at APACN. We expect to incur losses over the balance of fiscal 2004 as we continue to experience low sales volumes of fiber optic products and SunUVTM Personal UV Monitor products at APA; however we have taken steps through expense reductions to decrease the losses.

OTHER INCOME AND EXPENSE

Other income decreased $6,337, or 14%, for the three months ended December 31, 2003 from the comparable period in fiscal 2003. For the nine months ended December 31, 2003, other income decreased $202,118, or 67% from the comparable period in the preceding fiscal year. Other expenses increased $13,491 for the three months ended December 31, 2003. For the nine-month period ended December 31, 2003, other expenses increased $17,250 due to additional interest expense on capital leases at APACN. Interest income, a component of other income, decreased $13,728, or 26% and $185,317, or 60% for the three and nine months ended December 31, 2003, respectively, from the comparable periods in the preceding fiscal year. The decreases in interest income were due to the combination of a decline in the rate of interest earned on short-term investments and a lower average cash balance, as cash was consumed to fund operations, capital investment, debt service and acquisitions. Unless short-term interest rates increase, we anticipate continuing decreases in interest income as a result of the use of cash in operations, for capital expansion and for debt service.

NET LOSS

The net loss for the quarter ended December 31, 2003, was $1,642,436 (or $0.14 per basic and diluted share), an increased loss of $490,942 or 43% from the net loss reported for the same period in fiscal 2003. The increased net losses are primarily the result of net losses at APACN. For the nine months ended December 31, 2003, the net loss was $4,855,323, (or $.41 per basic and diluted share), an increase of $1,132,099 or 30% from the net loss reported for the same period in fiscal 2003.

LIQUIDITY AND CAPITAL RESOURCES
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APA's cash and cash equivalents consist primarily of money market funds, U.S. Government instruments or other government instruments with original maturities of less than three months. The balance of cash and cash equivalents at December 31, 2003 is $15,040,465 compared to $22,235,686 at March 31, 2003. The decrease in cash was primarily the result of the acquisition of the assets of Americable, Inc. and the use of cash to fund operations.

We used net cash of $2,510,267 in investing activities for the nine months ended December 31, 2003 compared to $195,969 used in the same period of the preceding fiscal year. Of this amount, $1,960,000 was used to purchase the assets of Americable, Inc. We also had a net investment of $542,891 for the nine months ended December 31, 2003 for computer and production equipment. We anticipate a total of approximately $1,250,000 in capital expenditures in fiscal 2004, primarily for equipment in HFET research at APA Optics. This includes payment of $375,000 in the quarter ended December 31, 2003 toward the $750,000 purchase price of a Gallium Nitride 2 inch multiwafer material growth system. We anticipate the delivery of the system during the fourth quarter of fiscal 2004. The balance of the purchase price, $375,000, is due three months after delivery. We also expect to invest in leasehold improvements including a sprinkler system for the Blaine facility.

Net cash used in financing activities for the nine months ended December 31, 2003 totaled $286,901. We used $351,702 for the scheduled reduction of debt and generated $64,801 from the reduction of bond reserve funds. During the same period in fiscal 2003 we used $390,732 in financing activities, of which $437,032 was used for the scheduled reduction of debt, $52,291 was generated from the reduction of bond reserve funds and $5,991 was used to repurchase common stock of the Company.

We believe we have sufficient funds for operations for at least the next twelve months.

Our contractual obligations and commitments are summarized in the table below (in 000's):

<TABLE>
<CAPTION>

	Total	Less than 1 Year	1-3 years	4-5 years	After 5 years
<S>	<C>	<C>	<C>	<C>	<C>
Long-term debt	$1,822	$ 1,545	$ 101	$ 35	$ 141
Leases	673	349	324	-	-
Total Contractual Cash Obligations	$2,495	$ 1,894	$ 425	$ 35	$ 141

</TABLE>

Application of Critical Accounting Policies

We have reviewed our use of estimates in applying our accounting policies and determined that significant changes in our various estimates would not have a material impact on the presentation of our financial condition, changes in financial condition or results of operations. Accordingly, we do not consider any of our estimates to be "critical estimates" as defined in the rules of the Securities and Exchange Commission. See Note A of Notes to Financial Statements under Item 8 of our Report on Form 10-K for our fiscal year ended March 31, 2003 for descriptions of the use of estimates in our accounting policies. Our management and the audit committee of our board of directors have discussed our use of estimates and have approved our disclosure relating to it in this report.

In Note 11 to the financial statements of this report, the effect of recent promulgations of the Financial Accounting Standards Board (FASB) on the Company is described. We believe the adoption of these Statements and Interpretations will not have a material effect on the Company's financial position or results of operations.

FACTS THAT MAY INFLUENCE FUTURE RESULTS
- --

The statements contained in this report on Form 10-Q that are not purely historical are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, including, without limitation, statements regarding the Company's expectations, hopes, beliefs, anticipations, commitments, intentions and strategies regarding the future. Forward-looking statements include, but are not limited to, statements contained in "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations." Actual results could differ from those projected in any forward-looking statements for the reasons, among others, detailed below. We believe that many of the risks detailed here are part of doing business in the industry in which we compete and will likely be present in all periods reported. The fact that certain risks are characteristic to the industry does not lessen the significance of the risk. The forward-looking statements are made as of the date of this Form 10-Q and we assume no obligation to update the forward-looking statements or to update the reasons why actual results could differ from those projected in the forward-looking statements.

Unless we generate significant revenue growth, our expenses and negative cash flow will significantly harm our financial position.

We have not been profitable since fiscal 1990. As of December 31, 2003, we had an accumulated deficit of $28 million. We may incur operating losses for the foreseeable future, and these losses may be substantial. Further, we may continue to incur negative operating cash flow in the future. We have funded our operations primarily through the sale of equity securities and borrowings. We have significant fixed expenses and we expect to continue to incur significant and increasing manufacturing, sales and marketing, product development and administrative expenses. As a result, we will need to generate significantly higher revenues while containing costs and operating expenses if we are to achieve profitability.

Declining average selling prices for our fiber optic products will require us to reduce production costs to effectively compete and market these products

Since the time we first introduced our fiber optic components to the marketplace we have seen the average selling price of fiber optic components decline. We expect this trend to continue. To achieve profitability in this environment we must continually decrease our costs of production. In order to reduce our production costs, we will continue to pursue one or more of the following:

- Seek lower cost suppliers of raw materials or components.
- Work to further automate our assembly process.
- Develop value-added components based on integrated optics.
- Seek offshore sources for assembly services.

We will also seek to form strategic alliances with companies that can supply these services. Decreases in average selling prices also require that we increase unit sales to maintain or increase our revenue. There can be no guarantee that we will achieve these objectives. Our inability to decrease production costs or increase our unit sales could seriously harm our business, financial condition and results of operations.

We believe our success in competing with other manufacturers of fiber optic and copper components and assemblies will depend primarily on our manufacturing and marketing skills, the price, quality and reliability of our products, our delivery capabilities and our control of operating expenses. We have experienced and anticipate experiencing increasing pricing pressures from our current and future competitors as well as general pricing pressure from our customers as part of their cost reduction efforts. Competition may also be affected by consolidation among suppliers in this industry, which may increase their resources. As a result, other competitors may be able to respond more quickly than we can to new or emerging technologies and changes in customer requirements.

We cannot predict whether we will be able to compete against current and future competitors with our existing and new products. We believe that technological change, the convergence of Internet, data, video and voice on a single broadband network, the possibility of regulatory changes and industry consolidation or new entrants will continue to cause rapid evolution in the competitive environment. The full scope and nature of changes are difficult to predict at this time. Increased competition could lead to price cuts, reduced profit margins and loss of market share, which may seriously harm our business, operating results and financial condition.

Demand for our products is subject to significant fluctuation. Market conditions in the telecommunications market in particular may harm our financial condition.

Demand for our products is dependent on several factors, including capital expenditures in the communications industry. Capital expenditures can be cyclical in nature and result in protracted periods of reduced demand for component parts. Similarly, periods of slow economic expansion or recession can result in periods of reduced demand for our products. The current economic slowdown has been more profound in the telecommunications market resulting in a significant reduction in capital expenditures for products such as our DWDMs and our fiber optic components. It is impossible to predict how long the slowdown will last. Such periods of reduced demand will harm our business, financial condition and results of operations. Changes to the regulatory requirements of the telecommunications industry could also affect market conditions, which could also reduce demand for our fiber optic components.

We may be required to rapidly increase our manufacturing capacity to deliver our products to our customers in a timely manner.

Manufacturing of our products is a complex and precise process. We have limited experience in rapidly increasing our manufacturing capacity or in manufacturing products at high volumes. If demand for our products increases, we

will be required to hire, train and manage additional manufacturing personnel and improve our production processes in order to increase our production capacity. There are numerous risks associated with rapidly increasing capacity, including:

- Difficulties in achieving adequate yields from new manufacturing lines,
- Difficulty maintaining the precision manufacturing processes required by our products while increasing capacity,
- The inability to timely procure and install the necessary equipment, and
- Lack of availability of qualified manufacturing personnel.

If we apply our capital resources to expanding our manufacturing capacity in anticipation of increased customer orders, we run the risk that the projected increase in orders will not be realized. If anticipated levels of customer orders are not received, we will not be able to generate positive gross margins and profitability.

Our dependence on outside manufacturers may result in product delivery delays.

We purchase components that are incorporated into our products from outside vendors. If these vendors fail to supply us with components or completed assemblies on a timely basis, or if the quality of the supplied components or completed assemblies is not acceptable, we could experience significant delays in shipping our products. Any significant interruption in the supply or support of any components or completed assemblies could seriously harm our sales and our relationships with our customers.

Our products may have defects that are not detected before delivery to our customers.

Some of our products are designed to be deployed in large and complex optical networks and must be compatible with other components of the network, both current and future. Our products may not be compatible or operate as expected over long periods of time. Our customers may discover errors or defects in our products only after they have been fully deployed. If we are unable to fix such errors or other problems, we could lose customers, lose revenues, suffer damage to our brand and reputation, and lose our ability to attract new customers or achieve market acceptance. Each of these factors would negatively impact cash flow and would seriously harm our business, financial condition and results of operations.

We must introduce new products and product enhancements to increase revenue.

The successful operation of our business depends on our ability to anticipate market needs and develop and introduce new products and product enhancements that respond to technological changes or evolving industry standards on a timely and cost-effective basis. We continue to acquire these products from off shore partners, qualify the products, and integrate (if necessary) the products into our platforms and systems. These products may not meet our target specification, which may delay their introduction into our sales channels. Outsourcing products also brings potential risks such as the general financial strength of our outsourcing partners and the economic and political stability in our partner's nation. These products may contain defects or have unacceptable manufacturing yields when first introduced or as new versions are released. Our products could quickly become obsolete as new technologies are introduced or as other firms introduce lower cost alternatives. We must continue to develop leading-edge products and introduce them to the commercial market quickly in order to be successful. Our failure to produce technologically competitive products in a cost-effective manner and on a timely basis will seriously harm our business, financial condition and results of operations.

Our markets are characterized by rapid technological changes and evolving standards.

The markets we serve are characterized by rapid technological change, frequent new product introductions, changes in customer requirements and evolving industry standards. In developing and sourcing our products, we have made, and will continue to make, assumptions with respect to which standards will be adopted within our industry. If the standards that are actually adopted are different from those that we have chosen to support, our products may not achieve significant market acceptance.

Our products may infringe on the intellectual property rights of others

Some of our products are sophisticated and rely on complicated manufacturing processes. We have received multiple patents on aspects of our design and manufacturing processes and we have applied for several more. Third parties may still assert claims that our products or processes infringe upon their intellectual property. Defending our interests against these claims, even if they lack merit, may be time consuming, result in expensive litigation and divert management attention from operational matters. If such a claim were successful, we could be prevented from manufacturing or selling our current products, be forced to redesign our products, or be forced to license the relevant intellectual property at a significant cost. Any of these actions could harm our business, financial condition or results of operations.

Acquisitions or investments could have an adverse affect on our business

We completed acquisitions of the assets of Computer System Products, Inc. and Americable, Inc. in March 2003 and June 2003 respectively, as part of our strategy to expand our product offerings, develop internal sources of components and materials, and acquire new technologies. We intend to continue reviewing acquisition and investment prospects. There are inherent risks associated with making acquisitions and investments including but not limited to:

- Challenges associated with integrating the operations, personnel, etc., of an acquired company;
- Potentially dilutive issuances of equity securities;
- Reduced cash balances and or increased debt and debt service costs;
- Large one-time write-offs of intangible assets;
- Risks associated with geographic or business markets different than those we are familiar with; and
- Diversion of management attention from current responsibilities.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Our exposure to market risk for changes in interest rates relates primarily to our investment portfolio. We invest in short-term securities of high credit issuers with maturities ranging from overnight up to 24 months. The average maturity of the portfolio does not exceed 12 months. The portfolio includes only marketable securities with active secondary or resale markets to ensure liquidity. We have no investments denominated in foreign country currencies and, therefore, our investments are not subject to foreign exchange risk.

ITEM 4. CONTROLS AND PROCEDURES.

a. Evaluation of disclosure controls and procedures. The Company's chief executive officer and chief financial officer have concluded that the Company's disclosure controls and procedures (as defined in Exchange Act Rule 13a-14(c)) are sufficiently effective to ensure that the information required to be disclosed by the Company in the reports it files under the Exchange Act is gathered, analyzed and disclosed with adequate timeliness, accuracy and completeness, based on an evaluation of such controls and procedures conducted within 90 days prior to the date hereof.

b. Changes in internal controls. There have been no significant changes in the Company's internal controls or in other factors that could significantly affect these controls subsequent to the date of the evaluation referred to above.

PART II

ITEMS 1 THROUGH 5. NOT APPLICABLE

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.

(a) Exhibits.

Exhibit 31.1 - Chief Executive Officer's certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

Exhibit 31.2 - Chief Financial Officer's certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

Exhibit 32.1 - Certification required of Chief Executive Officer by Section 906 of the Sarbanes Oxley Act of 2002

Exhibit 32.2 - Certification required of Chief Financial Officer by Section 906 of the Sarbanes Oxley Act of 2002

(b) Reports on Form 8-K.

None

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

APA OPTICS, INC.

	/s/ Anil K. Jain
- --------------	----------------
Date	Anil K. Jain President, Chief Executive Officer and Chief Financial Officer (Principal Executive and Principal Financial Officer)
	/s/ Daniel Herzog
- --------------	-------------------
Date	Comptroller (Principal Accounting Officer)

Exhibit 31.1

CERTIFICATION

I, Anil K. Jain, certify that:

1. I have reviewed this quarterly report on Form 10-Q of APA Optics, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly represent in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation: and

    c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:

    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

February 13, 2004

Signature: /s/ Anil K. Jain

Print Name: Anil K. Jain

Print Title: Chief Executive Officer

Exhibit 31.2

CERTIFICATION

I, Anil K. Jain, certify that:

1. I have reviewed this quarterly report on Form 10-Q of APA Optics, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly represent in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation: and

   c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

February 13, 2004

Signature: /s/ Anil K. Jain

Print Name: Anil K. Jain

Print Title: Chief Financial Officer

Exhibit 32.1

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of APA Optics, Inc. (the "Company") on Form 10-Q for the period ending December 31, 2003, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Anil K. Jain, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Sec. 1350, as adopted pursuant to Sec. 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Sections 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly represents, in all material respects, the financial condition and results of operations of the Company.

Signature: /s/ Anil K. Jain

Print Name: Anil K. Jain

Print Title: Chief Executive Officer

Exhibit 32.2

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of APA Optics, Inc. (the "Company") on Form 10-Q for the period ending December 31, 2003, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Anil K. Jain, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Sec. 1350, as adopted pursuant to Sec. 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Sections 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly represents, in all material respects, the financial condition and results of operations of the Company.

Signature: /s/ Anil K. Jain

Print Name: Anil K. Jain

Print Title: Chief Financial Officer